



LABOUR

Section 27 of the Indian Contract Act: Varun Tyagi Judgment and Delhi High Court's Ruling on Non-Compete Clauses

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In a significant ruling that has far-reaching implications for employment law in India, the Delhi High Court recently quashed an interim injunction in an employment dispute, highlighting the limitations of non-solicitation and non-compete clauses under Section 27 of the Indian Contract Act, 1872. The case, FAO 167/2025, involving Varun Tyagi and Daffodil Software Private Limited, provides an insight into how courts should balance the protection of business interests with the rights of employees to seek better opportunities.

Background of the Case

Varun Tyagi, an Information Technology Engineer, was initially employed by an affiliate of Daffodil Software Private Limited and was later transferred to the Respondent company on January 1, 2022. During his tenure, Tyagi was assigned to work on a high-priority government project titled POSHAN Tracker, aimed at enhancing nutritional outcomes for children across India. This project was commissioned by the Digital India Corporation (DIC), with whom Daffodil Software had a contractual engagement. Tyagi's employment with Daffodil Software ended on April 7, 2025, after he served a three-month notice period. Subsequently, he accepted a job offer from DIC as their General Manager, effective from April 8, 2025.

The Legal Battle

Daffodil Software filed a suit for a permanent injunction and damages against Tyagi, alleging their employment contact with Tyagi had a Non-Solicitation and Non-Compete Clause that prohibits him from engaging with any business associate of the company or its affiliates, whether directly or indirectly, in any capacity if he had any prior contact or introduction to them in the course of their employment with the company. They alleged that his new role with DIC would involve the disclosure of proprietary information, intellectual property, and insider knowledge acquired during his employment with Daffodil Software. The Trial Court, in its order dated May 23, 2025, granted an ex parte ad interim injunction, restraining Tyagi from working with DIC or any other business associates of Daffodil Software until further orders. Dissatisfied with this decision, Tyagi filed an appeal before the Delhi High Court.

Rival Contentions

Tyagi argued that the non-solicitation and non-compete clause in his employment agreement was void under Section 27 of the Indian Contract Act, 1872, which declares agreements in restraint of trade void, except in cases where the restraint is reasonable and protects legitimate business interests. He contended that the intellectual property and proprietary information related to the POSHAN Tracker project belonged to DIC, not Daffodil Software. Tyagi cited several judgments, including *Superintendence Co. of India v. Krishan Murgai* (1981) and *Niranjan Shankar Golikari v. Century Spg. and Mfg. Co. Ltd.* (1967), to argue that post-employment restraints are generally not enforceable.

On the other hand, Daffodil Software argued that Tyagi's new role with DIC involved the use of confidential information and proprietary techniques acquired during his employment with

Daffodil Software. They contended that the non-solicitation and non-compete clause was reasonable and necessary to protect their business interests. The Respondent relied on judgments such as *Leeds Rugby Ltd v Harris & Anor* (2005) and *Stenhouse Australia Ltd. v. Marshall William Davidson Phillips* (1974) to argue that post-employment restraints are enforceable if they are reasonable and protect legitimate business interests.

Court's Analysis and Decision

The Delhi High Court analysed the provisions of Section 27 of the Indian Contract Act and the relevant case laws cited by both parties. Justice Tejas Karia held that the non-solicitation and non-compete clause in Tyagi's employment agreement was void as it extended beyond the term of employment. The Court further held that Daffodil Software's claim that Tyagi would disclose proprietary information to DIC was misconceived, as the intellectual property rights for the POSHAN Tracker project belonged to DIC. The balance of convenience favoured Tyagi, as restraining him from working with DIC would cause irreparable harm to his career and financial stability.

The Court concluded that the interim injunction granted by the Trial Court was contrary to the settled position of law and could not be sustained. Therefore, the appeal was allowed, and the impugned order was quashed and set aside.

Conclusion

The Delhi High Court's judgment in FAO 167/2025 is a landmark ruling that reaffirms the limitations of non-solicitation and non-compete clauses in employment agreements. It underscores the importance of balancing the protection of legitimate business interests with the rights of employees to seek better employment opportunities. This case serves as a reminder that while employers may impose reasonable restrictions during the term of employment, extending such restrictions beyond the employment period may not be enforceable under Indian law. The judgment provides clarity and guidance for both employers and employees navigating the complexities of employment contracts and post-employment restraints.

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